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Today

CRASH OF '87

Thinly capitalized securities firms are tumbling as banks apparently refuse them funds to meet capital requirements. The New York Stock Exchange suspended three small firms: William D. Mayer & Co., AIG Inc., and Metropolitan Securities. 2

As the market rallied, Reagan administration officials prepared to begin talks on ways to cut the deficit, which they hope will calm investors. 2

Customers who bought equity mutual funds or stocks through their banks or thrifts are not blaming the institutions for their losses — at least, not yet. 2

Financial institutions so far have failed to capture the attention of investors, who are awaiting redemptions on their mutual funds and thinking about a place to put that money, said industry observers. 2

INSIDE

BankAmerica Corp. has dismissed two senior executives following a lengthy examination of problems with MasterNet, the company's $20 million computerized trust accounting and reporting system, according to sources. 3

Quarterly losses continued at two large Texas holding companies, Allied Bancshares Inc., Houston, and First RepublicBank Corp., Dallas. But BancTexas Group Inc., Dallas, reported a $4.8 million profit for the quarter ended Sept. 30. 10

Two of the nation's largest thrifts posted substantial declines for the third quarter. Great Western Financial Corp., Beverly Hills, Calif., said earnings were down 27%, and H.F. Ahmanson & Co., Los Angeles, reported a 50% drop. 6

Vendor Express, a new product from Mellon Bank, is designed to help corporations cope with the U.S. Treasury's electronic payments program. By 1990, it could replace 77 million checks a year. 10

COMMENT

For many years, institutions could count on receiving a refund on a portion of their FDIC assessment. But with the compounded rate of bank failures, the credit appears to be a thing of the past, writes Irvine Sprague. 4

KEEPING CURRENT

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Quote

People are going to come in wounded, scared, and they're going to want their hand held. Above all, you've got to have the right people at the point of sale.

Edward Furash, president of the Furash & Co. consulting firm, on wooing investors who are leaving the stock market. [Page 2]

Unquote

After the Crash

Bank Stocks Now More in Line With Issues in Other Industries

By JOHN P. FORDE

NEW YORK — Finally, bank stocks are market performers.

Since the beginning of the year, bank issues have consistently underperformed the general stock market. Investors — worried about the banking problems posed by Third World debt and interest rates — concentrated on industrial companies, which produced higher earnings and took the stock market to new heights.

Until recent days. The stock market's historic dive culminated in a record 508-point drop in the Dow Jones industrial average on Monday. While some other issues fared worse, bank shares were swept into the wave of selling.

A group of 15 stocks of major money center and regional banking companies checked by the *American Banker* lost a total of $8.3 billion in market value on Monday and Tuesday.

The total value of Citicorp's stock, for example, fell 17% to $7.4 billion in the two days of trading.

Market Capitalization Table
Page 14

Regional banks also posted declines. NCNB Corp.'s market capitalization fell 18% to $1.5 billion during the period.

One analyst said that, as of closing Monday night, his universe of bank stocks had fared better than the rest of the market since yearend 1986. In that time, banks had lost 6% of their value, while the Standard & Poor's 500 com-

Bank Stocks: Page 14 ➤

NY Fed Seeks Capital Adequacy Data Before Considering Irving Takeover

By GORDON MATTHEWS

NEW YORK — The Federal Reserve Bank of New York has delayed consideration of Bank of New York Co.'s hostile effort to acquire Irving Bank Corp., citing serious gaps in financial data on the deal and requesting detailed information about possible managerial and computer system problems in combining the banks.

The regulator has asked Bank of New York to say how it will assure capital adequacy for the combined institution if it does not receive expected gains on the sale of some Irving assets and liabilities. It has also asked how the existing operations at Irving, such as correspondent banking, will be carried on at lower asset levels.

The New York Fed has also requested that the bank discuss "the managerial implications of acquiring an organization the size of Irving through other than a negotiated deal." It has further asked the bank to outline the safeguards it will install against any disruptions in computer systems handling the clearing of government securities and other financial instruments.

Separately, Irving on Wednesday reported a threefold increase in third-quarter earnings that could attract investors and raise its stock price. The results were heightened by an extraordinary $42.4 million after-tax boost from recognizing value in Irving's pen-

NY Fed: Page 14 ➤

Chase to Slash Domestic Staff By 1,000 Jobs

3d-Quarter Report Shows Earnings Up by $88 Million

By JOHN P. FORDE

NEW YORK — Chase Manhattan Corp. will cut its domestic staff by 1,000 jobs, or about 2.2% of its total staff, by yearend through a voluntary early-retirement program.

Chase's plans, contained in its third-quarter earnings report, were announced here Wednesday as part of its latest round of cost-cutting initiatives. The report showed that the company earned $226 million in the third quarter, $88 million better than the same quarter of 1986.

Much of the gain came from nonrecurring items such as special gains that arose from recognizing value in its pension plan. There was also a $50 million tax benefit from the special loan-loss provision Chase took in the second quarter of this year.

Chase: Page 15 ➤

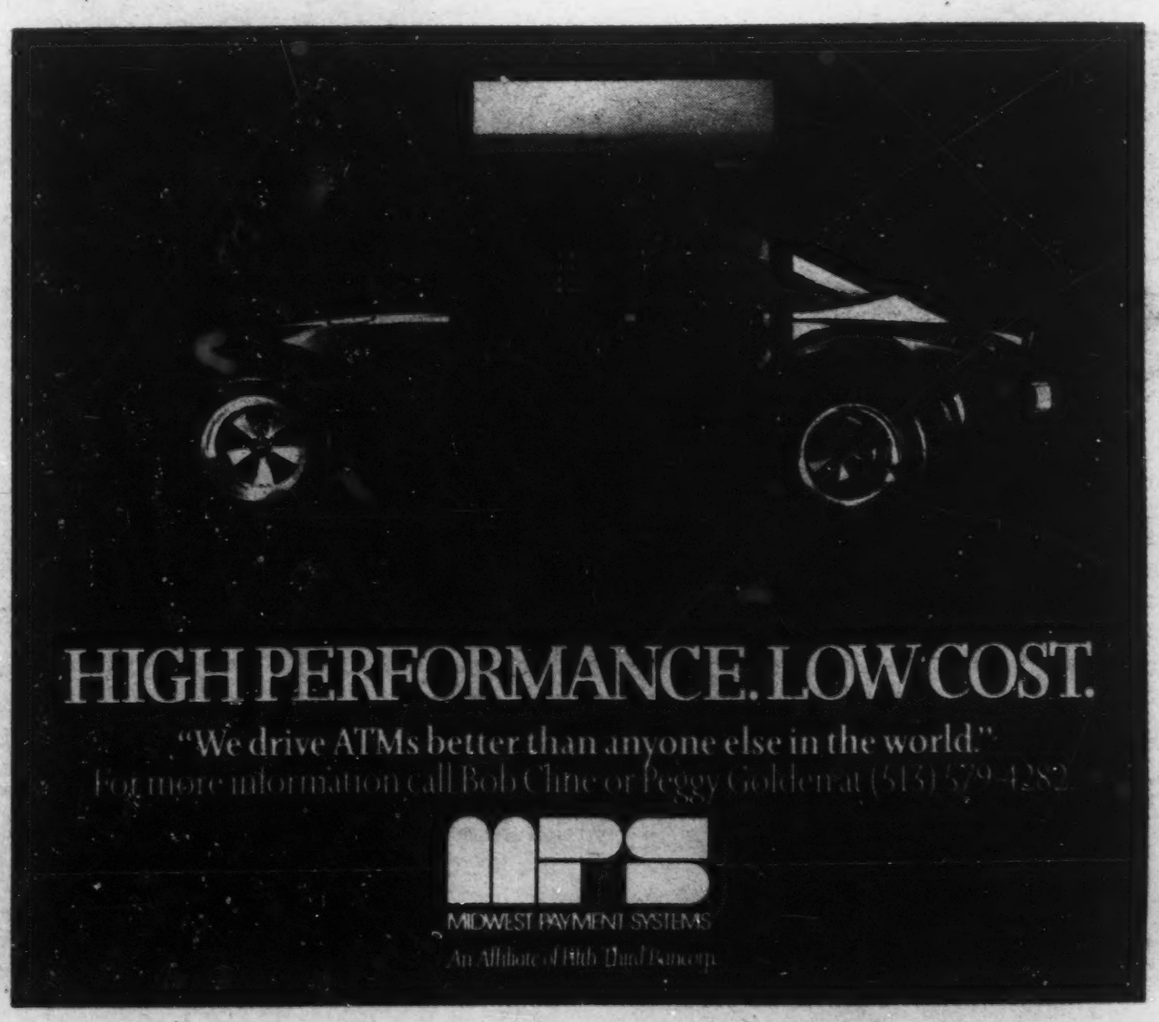
First Interstate Plans Restructuring

LOS ANGELES — First Interstate Bancorp Wednesday announced it will sell or restructure $6 billion to $7 billion in assets.

In a statement, the company said it was shedding assets "not essential" to the company's growth.

A source at the bank said "several hundred" jobs will be affected.

At the same time, First Interstate reported a $74.9 million loss for the quarter. The loss was partially due to a $95 million reserve established for the restructuring.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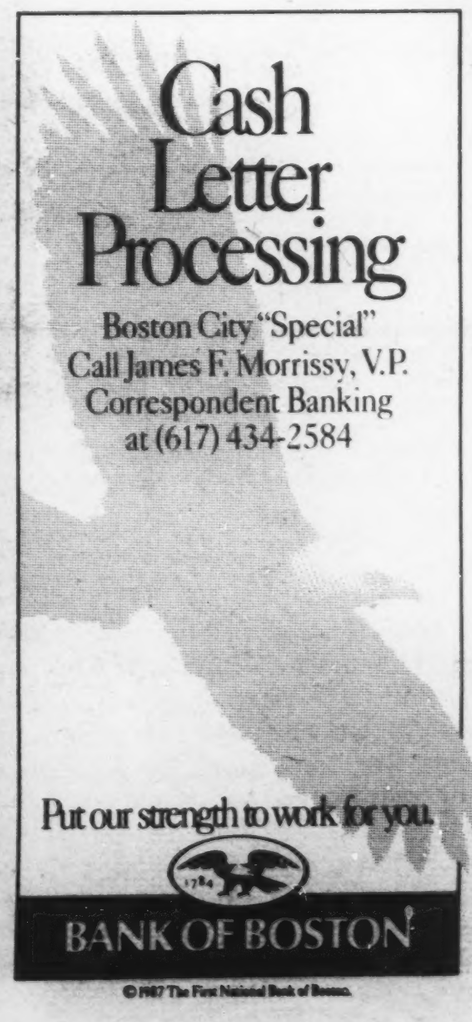

COMMENT

FDIC Insurance Rebates Are Thing of the Past

By IRVINE SPRAGUE

IT'S NEVER the first question asked. In fact, it seldom comes up second or third, but the issue rests deep in the subconscious of all bankers and before the day is out it is the single question that is always asked as I travel the nation speaking to banking groups.

"What happened to my FDIC assessment credit? When will it resume?" is the dual question that I can anticipate with certainty.

My answer is that, like the dodo bird, the assessment credit was a thing of beauty while it lasted.

The assessment system is simple. Banks pay the FDIC at the rate of one-twelfth of 1% of their domestic deposits each year. When the cost of bank failures and running the corporation is low, a large portion of the assessment paid is credited against the next year's payment.

Until 1985 the banks received the credit like clockwork, never missing a year. It averaged about 50% over the years, so the effective cost of FDIC insurance ran to about one twenty-fifth of 1%. The bargain of the century.

Then came Continental Illinois National Bank and Trust Company of Chicago, compounded by a bank failure rate that, after averaging less than 10 a year for decades, suddenly soared into the hundreds. This year's estimate is 200.

Big dollars are involved. For 1986 the banks paid $1.6 billion in assessments, or just under half of the total FDIC income of $3.3 billion. The remainder came from interest from Treasury obligations in which the FDIC's $18 billion fund is invested.

I lost the argument and we lost some banks. But the real carnage came in the savings and loan industry where compliant state legislatures gave the savings and loans the power to engage in all sorts of business that we bank regulators would never permit.

Since the Senate insisted on going to $100,000, I asked for something to help protect the fund. What we got was a reduction in the rebate figures back to the old 60%, plus a new provision that, when the ratio of the insurance fund to insured deposits dipped to 1.10 — $1.10 backing every $100 of deposits — the rebate would be capped at 50%.

Why does Citibank, a much larger institution, pay less for FDIC protection than BankAmerica? The answer: The law is unfair.

— Irvine Sprague
Former Chairman and Director
Federal Deposit Insurance Corp.

For those who haven't paid attention or who are new on the scene, a review of the assessment practice as it has evolved over the years will be helpful.

Original Assessment

The law that created the FDIC in 1933 provided for an assessment of one-half of 1% of deposits, half payable on admission and half subject to call by the FDIC. In addition, provision was made for the laying on of an additional assessment equal to that already paid. This was never invoked.

In 1935, the assessment rate was reduced to one-twelfth of 1%, the figure that continues to this day.

When the FDIC fund reached $1 billion in the late 1940s there was pressure by the banking industry to reduce the assessment rate. Reluctant to do so at such an early date, the FDIC agreed to a compromise in 1950, effectively reducing the rate, not by lowering it but by introducing a rebate system.

After deducting operating expenses and the insurance cost of failures from the assessment income, 40% was to be retained by the FDIC to enhance its fund; 60% was to be rebated to the insured banks. The investment income does not come into the computation.

This was the procedure until 1960 when the rebate was upped to 66.6%.

It was 20 years before the next change and again compromise contributed to the final solution. In 1980 the insurance coverage was at $40,000 per account and the savings and loan industry was clamoring for it to be raised to $100,000.

Jay Janis, then head of the Federal Home Loan Bank Board, made it a crusade. As FDIC chairman, I wanted an increase to $75,000, but no higher. The House supported my position but the Senate insisted on $100,000. At the time interest rates were controlled under $100,000 but free to float at $100,000 or above.

My argument against going to $100,000 was that sharp and shady operators would see a golden opportunity to pay whatever was necessary to bring in brokered money in insured blocks of $100,000 and then use the funds for insider dealings, speculative lending, and a variety of innovative looting of the depositor money, with the government insurance eventually picking up the tab.

Tiny insitutions would balloon overnight and those who followed us as regulators would be faced with a nightmare of failures.

There was additional language addressing what would happen if the ratios hit 1.25 and 1.40, but with the numbers headed in the other direction there is no point in discussing these options at this juncture. The ratio, which had fluctuated around 1.20 for decades, dropped to 1.12 at yearend 1986. In congressional testimony this summer, FDIC Chairman L. William Seidman said the ratio may well go down to 1.00 by yearend.

The issue of invoking the 1980 language is now moot, however, since there is no rebate of any kind available to be reduced to 50%. We entered 1987 with a negative carryover of $2.6 billion against the banks' assessment accounts and there can be no refund until this is wiped out.

The last year an assessment rebate was really due was 1983. Continental Illinois failed in 1984 but no loss was recognized on the FDIC books, so there was sufficient money to pay a $67 million rebate for the year. Those credits ranged from $2.3 million to BankAmerica Corp. to two cents to a tiny Florida institution.

Bookkeeping Criticism

The General Accounting Office refused to certify the FDIC's 1984 annual statement because no loss for Continental Illinois was recorded on our books, a bookkeeping decision that had caused dissension in our ranks.

When Mr. Seidman replaced William Isaac as chairman, one of the first things we did was to restate the books for 1984. We showed a $1.3 billion loss for Continental Illinois and put $700 million of it in 1984 and $600 million in 1985. The GAO then certified our statement.

It's good to see that good housekeeping seal of approval appear again in our annual report. But what to do about that $67 million already paid out?

After considering asking the banks for repayment, the solution was to put the $67 million in the negative account. It is now part of the $2.6 billion deficit for future bankers to worry about.

The question of setting reserves for Continental Illinois was a delicate one. Under the rescue contract the old Continental stock, still being publicly traded, becomes worthless if the loss finally tabulated reaches $800 million. The day of accounting is still two years away.

Comment: Page 6 ➡

Mr. Sprague served as chairman or director of the Federal Deposit Insurance Corp. for more than 11 years. During that time he handled 374 bank failures, more than anyone else in FDIC history. He is the author of the 1986 book *Bailout, An Insider's Account of Bank Failures and Rescues*. Mr. Sprague, who has retired from the FDIC, is a contributing columnist for the *American Banker*.

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FLASHBACKS

What made news in the *American Banker* this week...

50 Years Ago

• Bank stocks reached new lows for the year on the American Banker Index. The index of 20 bank stocks fell to an average 37.4, matching the low of Oct. 18, 1935. The American Banker observed that prices were slipping to the level that existed at the start of the 1935-1937 bull market.

• President Franklin D. Roosevelt dedicated the new Federal Reserve building.

• Public Enemy No. 1 Al Brady, 25, and a 20-year-old accomplice were shot to death by agents of the Federal Bureau of Investigation and state police after he and his gang walked into an ambush in Bangor, Maine. The suspected bank robbers were caught in a hail of machine gun fire as they returned to a hardware store to buy a machine gun they ordered 10 days earlier. A floor plan of the Merrill Trust Co. was found in Mr. Brady's pocket. The gang was believed to be responsible for a string of jewelry store holdups and for robbing the Goodland State Bank, Goodland, Ind.

20 Years Ago

• The number of bank holdups rose to 655 in the first half of 1967. The level was 244 more than in the same period a year earlier. Embezzlement cases involving $10,000 or more dropped to 58 in the first half of the year, from 79 the year before.

• The Federal Reserve Board moved to broaden its control over credit used for securities transactions. The proposed Regulation G extended margin requirements of 70% to such lenders as corporations, partnerships, tax-exempt foundations, credit unions, and anyone acting as an agent for a foreign lender.

10 Years Ago

• The Senate Banking Committee refused to grant federal bank regulators permission to publish lists of financial institutions that were found to repeatedly violate the Truth-in-Lending Act.

• Bert Lance, former director of the Office of Management and Budget, told a packed auditorium at the American Bankers Association convention in Houston that he regretted the nation's bankers were embarrassed by disclosures of his banking practices. "I want you to know I haven't described any banking practices as being typical in the country," he said. Mr. Lance resigned after a report by the comptroller of the currency raised questions about actions he took while head of a Georgia bank.

5 Years Ago

• A report by the Securities and Exchange Commission said the 1980 silver crisis had the potential to disrupt the U.S. financial system. The report examined the attempts by the Texas billionaire Hunt brothers to corner the silver market. The SEC fined the Hunts' broker, Bache Halsey Stuart Shields Inc., and criticized the New York Stock Exchange for failing "to be alert to the potential of a crisis."

• Texas Commerce Bancshares Inc., Houston, credited its 18% gain in third-quarter earnings to strong loan growth. Loans averaged $8.7 billion, up from $6.9 billion in the same period in 1981.

• The heads of three financial regulatory agencies, attending the annual American Bankers Association convention in Atlanta, said they favored some consolidation of their functions as the differences between banks and thrifts continue to blur. But the three men — William M. Isaac, chairman of the Federal Deposit Insurance Corp., Richard T. Pratt, chairman of the Federal Home Loan Bank Board, and C.T. Conover, comptroller of the currency — differed on how such a restructuring should be accomplished.

1 Year Ago

• Lawrence J. White, an economics professor at New York University, was nominated by President Reagan to fill the open Democratic seat on the Federal Home Loan Bank Board.

— Domenica Trevor

Bank Board Unit Gets Interim CEO

Washington Bureau

WASHINGTON — John B. Zellars, chairman of Georgia Federal Bank, Atlanta, will serve as interim vice chairman and chief executive officer of the Federal Asset Disposition Association, the Federal Home Loan Bank Board said Wednesday.

Mr. Zellars will serve until a permanent CEO can be found for the organization. He replaces Roslyn B. Payne, FADA's president, who gave up the additional title of CEO last week after her performance was criticized by Congress.

FADA was chartered as a thrift by the Bank Board in 1985 to help the Federal Savings and Loan Insurance Corp. liquidate assets acquired from failed institutions.

Mr. Zellars has been with Georgia Federal since 1951 and was named chairman in 1982. He is also a past chairman of the U.S. League of Savings Institutions.

Mr. Zellars is one of FADA's original directors.

The interim job will not pay a salary, according to the Bank Board. ■

Strategic Dates

April 1, 1988

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Bank Stocks Match Performance of Other Issues

➳ Continued from Page 1

posite index fell 7%.

The market's evaluation of bank stocks apparently excludes fundamentals, such as asset quality and earnings. "Lots of this movement didn't have very much at all to do with their being banks," said Raphael Soifer, an analyst at Brown Brothers Harriman & Co.

He believes much of the volatility in bank stock prices stems from program trading, which was limited by the New York Stock Exchange on Tuesday. Computer-driven trading in securities is concentrated on stocks included in financial futures indexes like the S&P 500.

"Those banks which make up a greater percentage of the S&P 500 show more volatility when trading programs are active," said Mr. Soifer. He cited program trading as a prime reason for the large drops at Citicorp and Morgan last Friday and Monday.

William Weiant, an analyst at First Boston Corp., also ascribed most of the problems in the bank stock market to "mechanical factors," such as program trading.

Concerning fundamentals, Mr. Soifer said bank stocks might have a brighter future if the market believes a recession is on the way. While he does not agree with that forecast, he said some investors consider bank stocks and utilities "defensive" issues.

Earnings at such companies tend to be more stable during a recession than earnings at industrial companies.

The analyst said third-quarter earnings, which many banks have reported in the past two weeks, were not pushing stock prices in any direction.

All the major banks "have virtually come out either where we expected or above," said Mr. Soifer. Some, like Bankers Trust New York Corp. and Wells Fargo & Co., have reported gains above expectations and still seen their stocks take a beating in the market.

Mr. Weiant also said one of the banks he favors is Wells Fargo, San Francisco, which had "spectacular" earnings. The concerns of money center banks have been overstated in recent weeks, he said, predicting bank stocks as a group would fare slightly better than market average in coming weeks. ■

Stock Drop Cuts Market Capitalization

Major banking firms, listed alphabetically (dollar amounts in millions)

	Market Capitalization Oct. 16 Close	Oct. 20 Close	% Chg.
Banc One Corp.	$2,450.2	$2,218.1	– 9%
Bank of New England Corp.	2,099.3	1,639.1	–22
Bankers Trust N.Y. Corp.	3,054.7	2,313.6	–24
Chemical N.Y. Corp.	1,977.5	1,401.4	–29
Citicorp	8,979.0	7,436.0	–17
Corestates Financial Corp.	1,525.9	1,313.4	–14
First Chicago Corp.	1,461.5	1,094.2	–25
First Union Corp.	2,476.3	1,944.8	–21
First Wachovia Corp.	2,249.7	1,939.9	–14
Manufacturers Hanover Corp.	1,558.6	1,270.3	–19
J.P. Morgan & Co.	7,498.2	6,386.5	–15
PNC Financial Corp.	3,438.0	2,736.0	–20
Security Pacific Corp.	3,686.1	3,155.2	–14
NCNB Corp.	1,819.1	1,482.7	–18
Wells Fargo & Co.	2,713.5	2,322.0	–14
Total	**$46,978.6**	**$38,653.2**	**–18**

NY Fed Seeks Capital Adequacy Data Before Considering Irving Takeover

➳ Continued from Page 1

sion plan.

Bank of New York startled the banking community with its unsolicited $1.4 billion offer for Irving, which has rejected the bid and asserted it wants to remain independent. The proposal was unveiled on Sept. 25 in a registration statement filed with the Securities and Exchange Commission, followed by the Federal Reserve application on Oct. 2.

In a letter this week, William L. Rutledge, vice president of the New York Fed, said the regulatory filing had been "seriously deficient" in providing necessary financial information, particularly on Bank of New York's plans to divest parts of Irving and sell that bank's headquarters at One Wall Street.

Regional Federal Reserve banks, which process merger applications on behalf of the Federal Reserve Board, often request additional information before considering an application. Mr. Rutledge's letter was seen by some analysts and banking industry lawyers as having a more serious tone than usual for such a communication.

Nevertheless, one observer remarked that the letter should be viewed in context, noting that the Fed usually is asking for additional information on friendly deals. "It isn't normally necessary to ask for stuff on computer systems," he noted, "because in a friendly deal that sort of thing is all worked out in advance."

Others have also raised the question of Bank of New York's ability to manage a combined organization that would be double the bank's present size. Together, Bank of New York and Irving would have had assets of $42 billion at midyear and ranked 11th in size among the nation's banking companies.

Concerning management, the New York Fed asked Bank of New York to discuss how much of Irving's management it could retain or would need to replace, and to "focus in particular on any areas of Irving's current operations where [Bank of New York] has relatively less managerial experience.

A Bank of New York spokesman noted that the bank and its lawyers had not yet had chance to study the regulator's letter concerning the application and could not comment on it.

Meanwhile Irving, which has seen the price of its stock dwindle in the past week to a level at which it traded before Bank of New York's takeover bid, has reported third-quarter earnings that were almost triple its income for the same period of last year.

The earnings, however, included several sizable nonrecurring items, such as a $42.4 million after-tax gain from recognizing value in its pension plan and a $20 million reduction in taxes, which arose from Irving's special loan-loss provision of the third quarter.

The price of Irving's stock, for which Bank of New York Co. has offered to pay $80 a share in cash and stock in its takeover offer, has been pummeled in the stock market this week. It faded to $44.50 by Wednesday morning after closing trading Friday at $65.38 and being in the high 70s after the takeover attempt was announced in early October.

In the third quarter, Irving earned $95.9 million, which compared with $32.6 million in earnings in the third quarter of 1986. Per common share, Irving earned $5.20 in the third quarter of 1987, up $1.73 in the same period last year.

Joseph A. Rice, Irving's chairman, attributed the increased earnings to improved noninterest income, which included the $86.7 million pretax gain on the settlement of some pension plan obligations.

He added that the growth of noninterest income reflects Irving's program of increasing earnings from such banking activities as factoring, foreign exchange trading, fiduciary and securities services, and certain capital markets activities.

Third-quarter noninterest income increased 105.6% to $202.3 million in 1987 from $98.4 million in the comparable period last year. The improvement included a significant contribution to income from the settlement of certain pension plan obligations, through the purchase of annuities from a major life insurance company, in accordance with Statement of Financial Accounting Standards No. 88.

Excluding this gain, Irving's noninterest income rose 17% in the third quarter, principally due to higher trust income, foreign exchange trading revenue, and other noninterest income. ■

LEGAL ADVERTISING

Notices of Foreclosure

SUPREME COURT - COUNTY OF BRONX Federal National Mortgage Association, Plaintiff against Godfrey A. Roberts, et al Defendant(s). Pursuant to a judgment of foreclosure and sale, entered herein and dated August 26th, 1987, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, N.Y., in Room 118, Mezzanine, on the 2nd day of November, 1987, at 12 Noon premises briefly described as follows: On the north side of East 224th Street, 475 feet west of Schieffelin Avenue, being a plot 107.53 feet by 25 feet and known as 1141 East 224th Street, Bronx, N.Y. Approximate amount of lien $103,197.76 with interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 17136/84, Dated: October 8th, 1987, Eugene R. Wolin, Referee Philip Irwin Aaron Attorney(s) for Plaintiff, 400 Jericho Turnpike, Jericho, N.Y. 11753.

SUPREME COURT - COUNTY OF BRONX. Marion Robbins, Plaintiff against Helen Martuscelli, et al Defendant(s). Pursuant to a judgment of foreclosure and sale, entered herein and dated September 8th, 1987, I, the undersigned Referee, will sell at public auction at the Bronx County Courthouse, 851 Grand Concourse, Bronx, N.Y., in Room 118, Mezzanine, on the 5th day of November, 1987, at 10:00 A.M., premises briefly described as follows: On the west side of Crotona Avenue, 290 feet south of 189th Street, being a plot 80 feet by 25 feet and known as 2441 Crotona Avenue, Bronx, N.Y. Approximate amount of lien $31,770.06 with interest and costs. Premises will be sold subject to provisions of filed judgment, Index Number 7873/87, Dated: October 14, 1987, Anthony Suarez, Referee, Roach & Bergman Attorney(s) for Plaintiff, 600 Old Country Road, Garden City, N.Y. 11530.

Auction Notices

George Delnevo sells R/T/I, 11/2/87, 12 Noon at 1655 E. 233rd St, Bx, NY, '77 Check #A12216474143A Re: Henry, '79 Check #A11346790678E Re: Findlay, '79 Olds #3L37R9X121419 Re: Cambridge, '81 Dat #JN1PS06SXBU440615 Re: Keyes, '83 For #1FTBR10C8DUB06399 Re: Pitts, '82 For #1FABP0521CT185442 Re: Perez, '77 Chev #1L35L7S283373 Re: Serrano, '80 Olds #3N69YAM118937 Re: Kharran, '76 Chry #SS22N6R238409 Re: Vining, '71 Bu #444371G107081 Re: Martin.